

ORIGINAL
NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
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2012 APR 2 PM 1 37

E-01933A-12-0126

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01933A-12-_____
TUCSON ELECTRIC POWER COMPANY FOR)
THE ESTABLISHMENT OF JUST AND) **NOTICE OF INTENT TO FILE A**
REASONABLE RATES AND CHARGES) **RATE CASE APPLICATION AND**
DESIGNED TO REALIZE A REASONABLE) **REQUEST TO OPEN A NEW**
RATE OF RETURN ON THE FAIR VALUE OF) **DOCKET**
ITS OPERATIONS THROUGHOUT THE STATE)
OF ARIZONA.)

Tucson Electric Power Company ("TEP" or "Company"), through undersigned counsel, hereby provides its 90-day Notice of Intent to File a Rate Case Application ("Notice of Intent") for the establishment of just and reasonable rates.

TEP's current rates were established by the Arizona Corporation Commission ("Commission") in Decision No. 70628 (December 1, 2008), based on a test year ending December 31, 2006, with rates that went into effect on December 1, 2008. As part of the 2008 TEP Rate Case Settlement Agreement approved in Decision No. 70628 ("2008 Settlement Agreement"), TEP, Staff and other parties agreed as follows:

TEP shall not submit a rate application sooner than June 30, 2012. On or after June 30, 2012, TEP may not submit a rate application that uses a test year ending earlier than December 31, 2011. The Signatories agree to use their best efforts to have post-moratorium rates in place no later than thirteen months after TEP's rate application is filed with the Commission. For purposes of this paragraph, Staff will be deemed to have used its "best efforts" if it endeavors to process TEP's rate application within the timeframes set forth in A.A.C. R14-2-103. The Signatories recognize that Staff cannot ensure that the Commission will act on a rate application by any date certain.¹

Arizona Corporation Commission
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¹ Settlement Agreement at Section 10.2.

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1 TEP intends to file a general rate case application on July 2, 2012 using adjusted Test Year
2 sales and expenses for the Company's jurisdictional electric operations for the twelve months
3 ended December 31, 2011 ("Test Year"). As part of its application, TEP will propose that new
4 rates go into effect no later than August 1, 2013 (thirteen months after TEP's rate application is
5 filed in accordance with the "best efforts" provision in Section 10.2 of the 2008 Settlement
6 Agreement).

7 **I. OVERVIEW OF KEY RATE CASE ISSUES.**

8 Since the end of its previous test year (December 31, 2006), TEP has expended significant
9 capital on system upgrades, and it has experienced increases in operation and maintenance
10 ("O&M") expense to ensure the continued safety and reliability of its system to benefit its
11 customers. The need to recover these expenses in a timely fashion has been exacerbated by TEP's
12 volumetric rate design and the flat to declining sales levels since the last test year. Further, TEP
13 now faces several new regulatory challenges that did not exist during its last rate case, including
14 but not limited to, Commission-imposed energy efficiency and enhanced renewable energy
15 requirements, as well as new and costly federal environmental requirements. The combination of
16 these factors, among others, has resulted in TEP's inability to earn its authorized rate of return on
17 a retail jurisdictional basis. Moreover, despite TEP's careful management of its costs and
18 resources since the prior test year, the increasing costs associated with the necessary capital and
19 O&M expenditures since 2006, combined with regulatory mandates (as well as other factors), has
20 resulted in the current rates no longer being just and reasonable. Accordingly, it is in the public
21 interest for the Commission to increase TEP's rates to avoid further financial harm to the
22 Company.

23 TEP is therefore filing this rate case to: (i) ensure its ability to provide safe and reliable
24 service to its customers; (ii) recover its full cost of service, including an appropriate return on
25 invested capital; and (iii) maintain or improve its credit rating, all of which will benefit TEP and
26 its customers. TEP is also seeking the approval of certain adjustor mechanisms, which will allow
27 it to meet recent and upcoming regulatory mandates.

1 TEP expects to raise the following key issues in its rate filing:

- 2 • **Decoupling Mechanism.** In light of the Commission's Electric Energy Efficiency
3 Rules and Renewable Energy Standard requirements, TEP will request a revenue-
4 per-customer decoupling mechanism or other lost fixed cost-recovery mechanism
5 (LFCR) that allows for recovery of fixed costs based on the approved levels
6 established in this rate filing.
- 7 • **Environmental Compliance Cost Recovery Mechanism.** TEP will discuss the
8 need to recover the cost of capital investment necessary to comply with
9 government-mandated environmental standards, and will propose a new adjustor
10 mechanism to provide appropriate recovery of those costs prior to TEP's next rate
11 case.
- 12 • **Renewable Energy and Energy Efficiency.** TEP will propose, among other
13 things, a more cost effective plan to comply with the Commission's requirements in
14 these areas.
- 15 • **Cost of Equity.** TEP's current returns on invested capital are significantly lower
16 on a retail jurisdictional basis than the Company's authorized cost of equity of
17 10.25%. The Company will propose a cost of equity that properly reflects current
18 capital market conditions.
- 19 • **Fair Value Rate of Return.** TEP will propose fair value rate base and a return on
20 fair value rate base in accordance with the Arizona Constitution.
- 21 • **Depreciation Study.** TEP will file an updated depreciation study.
- 22 • **Updated Rate Design.** TEP will propose significant changes to its rate design to
23 more accurately reflect the current cost of service. TEP also will request to
24 simplify its tariffs through consolidation of multiple tariffs.
- 25 • **Modifications to the Purchased Power and Fuel Adjustment Clause**
26 **("PPFAC").** TEP may request modifications to the PPFAC, including the costs to
27

1 be recovered through the PPFAC, and may propose some price differentiation by
2 customer class.

- 3 • **Property Tax Increase Deferral Mechanism.** TEP may request that the
4 Commission approve a property tax increase deferral mechanism.
- 5 • **Revisions to Rules and Regulations.** TEP will propose revisions to its Rules and
6 Regulations, including but not limited to, revisions related to customer service, net
7 metering, energy efficiency, and distributed renewable generation.

8 In addition to the issues described above, TEP will propose a number of standard pro
9 forma adjustments to the historic 2011 Test Year rate base, income, and expenses.

10 **II. TENTATIVE WITNESS LIST.**

11 To support the Company's request and the issues identified herein, the following is a
12 preliminary witness list for TEP and the topic each will address in their direct testimony:²

13 Paul Bonavia:	The overall condition of the Company and why approval of 14 the rate application is critical to TEP's customers and 15 shareholders.
16 Dave Hutchens:	Overview of TEP's rate application and primary proposals, 17 including the need for a revenue decoupling mechanism, the 18 need for an environmental compliance cost adjustor, 19 integrated resource planning, energy efficiency, and renewable cost recovery mechanisms.
20 Mike DeConcini:	Overview of TEP operations, capital spending, and 21 environmental compliance requirements.
22 Kentton Grant:	Overview of TEP's financial condition, including anticipated 23 capital needs, credit ratings and ratings agency concerns, 24 capital structure and cost of debt, long-term lease obligations, purchase of Sundt Unit 4, and cost of credit 25 support for fuel and purchased power procurement.
26 John Reed (CEA):	Cost of equity, fair value rate base, and fair value rate of 27 return.

² This preliminary list of witnesses is subject to change between now and the date of the rate filing.

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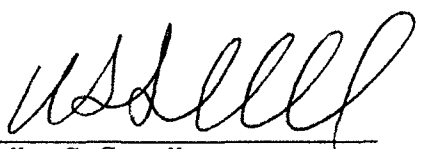
Dr. Ronald White:	Depreciation rates.
Mark Mansfield:	Generation operations, including decommissioning of generating plants, and service lives of generating units.
Karen Kissinger:	Depreciation expense, Reproduction Cost New Less Deprecation (RCND) study, leases, leasehold improvements, taxes, and various income statement pro forma adjustments.
James I. Warren	Deferred income taxes.
Dallas Dukes:	Revenue requirement, rate base and income statement pro forma adjustments, revisions to the base cost of fuel, purchase power, and to the PPFAC.
Craig Jones:	Cost of service study, revenue decoupling mechanism, environmental compliance cost adjustor mechanism, proposed rate design, and revisions to TEP's tariffs.
Lindy Sheehy	Revisions to TEP's Rules and Regulations, and customer service.

III. CONCLUSION.

TEP intends to file its rate case on July 2, 2012 with the proposed effective date of new rates no later than August 1, 2013.

RESPECTFULLY SUBMITTED this 2nd day of April, 2012.

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Original and 13 copies of the foregoing
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